May 31st, 2000

Ms. Mary L. Cottrell

Secretary, Department of Telecommunications and Energy

One South Station

Boston, Massachusetts 02110

In Re: Docket # 99-60

Default Service pricing and Procurement

Dear Secretary Cottrell:

MHI Inc. (MHI) is a wholly owned, non-profit subsidiary of the Massachusetts Health and Educational Facilities Authority (HEFA), an independent public authority. MHI is the organizer of the PowerOptions® consortium, an electric supply purchasing group of over 700 Massachusetts non-profit institutions and state and local governmental entities, of which 409 have contracted for supply from the competitive electricity market for over 9,200 electric service accounts. The PowerOptions® program services institutions of all sizes in each of the service territories in Massachusetts where retail electricity purchase is available.

We have commented previously to the Department that the filing by Massachusetts Electric Company on April 28th, 2000 suggesting that a "market" rate for Default Electricity was premature since the Department has yet to act on Docket 99-60, the Generic Proceeding into Default Pricing. We were concerned with the effect of approving the Massachusetts Electric Company’s filing for customers in the Massachusetts Electric service territory, without knowing the likely rate proposals and conditions for service in the other utility territories. We also asserted that with respect to an issue of significant importance – as this is – it is preferable to promulgate a system-wide policy and set of rules than to construct a policy by means of individual utility company filings and rulings. We applaud the Departments efforts to complete Docket 99-60 and hope the Department will do so before addressing the Massachusetts Electric Company's filing

While we understand the pressures to create a separate Default rate, we are concerned that the state of the current competitive market is such that a determination of market pricing is difficult at best. Accomplishing the legislative goal of basing default supply pricing on market based rates, in the face of an ill-formed market environment, is challenging. The legislation is clear on its face, however, that an ersatz default market price is no substitute for a "default service rate (which) shall not exceed the average monthly market price of electricity". Default Service pricing should ultimately reflect a fully functioning and available market rate opportunity against which users can judge their options for supply. The DTE in its own investigation has stated (DTE 99-60-A):

"It is essential to the development of a robust competitive market to have prices set at levels that provide customers with appropriate price signals regarding the costs associated with providing the service, as established by the competitive market."

We are not convinced that the costing of Default Service in the current market provides those appropriate signals and we hasten to add that default customers have few, if any, legitimate options other than remaining with their current utility company. Creating a universe of hundreds of thousands of captive customers and increasing the cost of their generation charges in the *expectation* of it, in turn, leading to the establishment of a market is an experiment based on questionable science. Questions abound: Are their any current studies or analyses by Department of Telecommunications and Energy which indicate that a robust market would, indeed, be created at a certain pricing level? What actions will Department of Telecommunications and Energy take to protect the economic interest of the captive customers if, in fact, no market develops in a reasonable period of time? When will Department of Telecommunications and Energy promulgate a set of explicit, utility-wide rules defining when and how customers become default customers? What other steps or actions will be taken to decrease or eliminate the problems and issues which have contributed to the slow development of a true competitive market (for example, significant issues involving billing and the flow of electronic information)?

The Department also states in Docket 99-60-A;

"We anticipate that our policy on default service will evolve as the Department, interested parties, and customers gain experience, and as more information is available regarding both default service and the competitive generation market. As such, the

Department intends to review periodically the effectiveness of our policies and to make necessary modifications as circumstances dictate."

Given this level of uncertainty, it would seem prudent and fully consistent with the Department's expressed objectives to complete the work on other important issues in Docket 99-60 and only move forward on pricing Default Service when the market is capable of giving accurate and reasonably transparent signals for retail pricing to consumers.

If the Department has an immediate concern with respect to providing default supply to a few large customers who are temporarily or permanently returning to the LDC for service, we would suggest that any pricing problem be resolved between the LDCs and those customers (or brokers) directly, and done pursuant to the issuance of uniform rules promulgated by Department of Telecommunications and Energy. The costs should not migrate in any manner to other Standard Offer or Default customers. We believe the best way to achieve this is to require any customer leaving within the six-month Default Service Rate Period to pay the LDC's full cost of electric supply for the portion of the six-month period for which the Default Customer received Default Service.

The issues of public education, reliability of price signals and appropriate distribution of costs associated with providing Default Service must be fully investigated and resolved before a separate pricing mechanism is set up in the market place. Providing a subsidized rate or some other formulaic solution will simply compound the confusion that separating the Standard Offer Rate and Default Rate is certain to cause when announced. Until there is a market place where true pricing of Default Service will provide an accurate price signal for consumers no longer eligible for the Standard Offer, customers understand why they are on Default, what it means and until they have realistic options in the marketplace, we feel the two rates, Default and Standard Offer should remain the same.

Finally, we ask that any separation of the current Standard Offer and Default Rates take place only after: (1) an *effective* public education program is in place, including a full description of the situations which lead to an account being placed on Default service; (2) the market rate is obtained by the LDC in a solicitation for a minimum of six months where the rate is reflective of the retail market and provides an accurate price signal to consumers seeking alternatives in the retail market.

Sincerely,

Robert J. Ciolek

President

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